United Nations DP/2003/7

Executive Board of the United Nations Development Programme and of the United Nations Population Fund

Distr.: General
6 January 2003

Original: English

First regular session 2003
20 to 29 January 2003, New York
Item 7 of the provisional agenda
Recommendations of the Board of Auditors, 2000-2001

UNOPS: Follow-up to the report on the implementation of recommendations of the Board of Auditors for the biennium 2000-2001*

Report of the Executive Director

Summary

The present report provides an update on the status of the implementation by the United Nations Office for Project Services of the recommendations of the Board of Auditors contained in document DP/2002/CRP.13 presented to the Executive Board at its annual session 2002. The first progress report on the status of the implementation of the recommendations was made extraordinarily at the second regular session 2002 in document DP/2002/35.

The Executive Board may wish to take note of the present report.

I. Introduction

1. The present report is submitted pursuant to Executive Board decision 2002/21 of 27 September 2002. It provides an update on the implementation by the United Nations Office for Project Services (UNOPS) of the recommendations of the Board of Auditors, as contained in its report for the biennium 2000-2001 (DP/2002/35). The report of the Board of Auditors is normally discussed at the first regular session of the year following the issuance of the report (the present session). However, as the Executive Board had already requested a similar report for its second regular session 2002 as part of its ongoing review of the UNOPS financial situation, the

* The collection and analysis of current data required to present the Executive Board with the most up-to-date information has delayed submission of the present document

03-20198 (E) 080103

present report updates the information contained in document DP/2002/35 and Add.1 and Add.2.

2. The status of the implementation of the recommendations of the Board of Auditors is contained in the annex to the present report.

II. Status of the implementation of the recommendations of the Board of Auditors

3. The report of the Board of Auditors includes 18 recommendations, of which 15 concern financial issues and three management issues. As of the date of issuance of the present report, six of the 18 recommendations have not yet been completed, although progress is being made towards their completion.

Annex

A. Financial issues

4. *Recommendation 1 (paragraph 22 of DP/2002/CRP.13).* UNOPS should exercise caution in its budgetary assumptions and income projections to ensure that realistic targets are established.

5. *Status.* As was reported in document DP/2002/35, UNOPS has completed the implementation of the recommendation. No further action is required.

6. *Recommendation 2 (paragraph 26).* UNOPS should (a) continue to review its medium-term strategy in a comprehensive manner, including such elements as an analysis of the variables related to business from UNDP with a view to aligning its project delivery approach; and (b) embark on a strategy to diversify further its client base within the United Nations system.

7. *Status.* UNOPS has been focusing on: (a) continuing its efforts to remain cost-effective; and (b) concentrating its diversification strategy on specialized agencies of the United Nations system, given the large long-term potential existing among them. There are a few noteworthy developments regarding the further diversification of the client base. The broad-based framework agreements with the United Nations Children's Fund (UNICEF) and the United Nations Educational, Scientific and Cultural Organization (UNESCO) have just been signed and initial joint operations have been identified. UNICEF has just made its first payment on the Afghanistan project, identified as highest priority. They have paid an advance of some $3 million, including UNOPS administrative costs, corresponding to about one third of the first phase of this project. UNESCO is preparing to discuss equipment lists for procurement by UNOPS under the United Nations Office of the Iraq Programme (OIP), whose backlog is over $100 million. UNOPS has also been identified as a local fund agent by the Global Fund to Fight AIDS, Tuberculosis and Malaria. Some country-specific agreements (such as that for China) have already been signed. Further framework agreements are being negotiated with other United Nations organizations, including the United Nations Human Settlements Programme (HABITAT), the United Nations Environment Programme (UNEP) and the International Labour Organization (ILO). The Office of the High Commissioner for Refugees and the Office of the High Commissioner for Human Rights are considering expanding the service volume with UNOPS considerably. What is different – and noteworthy – is that HABITAT, UNEP and ILO have a new approach whereby they outsource a considerable part of their work, not solely on an individual project basis but more systematically. The Executive Director is responsible for this ongoing activity.

8. *Recommendation 3 (paragraph 32).* UNOPS should evaluate the basis and calculation of the cost of services to ensure that all costs are identified and recovered and that the piloted system addresses all shortcomings identified in the Project Management Office workload system.

9. *Status.* As an initial step, the Deputy Executive Director/Director of Operations convened a task force to analyze and make proposals on the UNOPS fee structure; UNOPS management will address the task force recommendations in the first quarter 2003. UNOPS expects to implement its new fee calculation system

throughout the organization in 2003, subject to available budgetary resources. The Deputy Executive Director/Director of Operations is responsible for this activity.

10. *Recommendation 4 (paragraph 39).* UNOPS should evaluate its procedures for controlling costs with a view to meeting project delivery needs while ensuring flexibility to adapt to increases in the level of service delivery.

11. *Status.* As was reported in document DP/2002/35, UNOPS has completed the implementation of the recommendation. No further action is required.

12. *Recommendation 5 (paragraph 43).* UNOPS should prepare budgets and revisions thereto on a basis which is more in line with realistic project delivery.

13. *Status.* As was reported in document DP/2002/35, UNOPS has completed the implementation of the recommendation. No further action is required.

14. *Recommendation 6 (paragraph 47).* UNOPS should continuously monitor actual performance against clearly defined targets and assess the specific methods to restore the operational reserve to its required level. The Board further recommends that UNOPS should communicate such performance and measures taken to the Executive Board.

15. *Status.* As was reported in document DP/2002/35, UNOPS has completed the implementation of the recommendation. No further action is required.

16. *Recommendation 7 (paragraph 49).* While the Board recognizes the efforts made by UNOPS to review unliquidated obligations (ULOs), it recommends that UNOPS should conduct more regular reviews of all ULOs in a timely manner.

17. *Status.* As was reported in document DP/2002/35, UNOPS has completed the implementation of the recommendation. No further action is required.

18. *Recommendation 8 (paragraph 51).* UNOPS should: (a) compute the full costs incurred in respect of services to the International Fund for Agricultural Development (IFAD) to determine the feasibility of this service line; and (b) disclose the full IFAD costs in schedule 2 to the financial statements.

19. *Status.* In October 2002, UNOPS completed a review of the cost of providing project supervision and loan administration services for the IFAD programme. The review revealed the need for an upward adjustment of the management fee from its current level, which was subsequently communicated to IFAD senior management. While final decision from IFAD on the requested management fee increase has not yet been received, UNOPS believes that IFAD also recognizes the need for the fee adjustment and expects a positive response in the near future. The Deputy Executive Director/Director of Operations is responsible for this activity.

20. *Recommendation 9 (paragraph 39).* UNOPS should, in conjunction with the United Nations and its funds, programmes and specialized agencies, review the funding mechanism and targets for end-of-service benefits. The Board considers that UNOPS may need to expedite its consideration of funding the end-of-service liabilities given its unique funding principles of UNOPS.

21. *Status.* UNOPS continues to work with United Nations organizations and is considering funding implications. It is still expected that a course of action will be proposed by the end of the second quarter 2003. The Executive Director is responsible for this activity.

22. *Recommendation 10 (paragraph 59).* UNOPS should consider presenting to the Executive Board for approval variable budgets based on several levels of activity, clearly identifying the most likely level of activity.

23. *Status.* As was indicated in document DP/2002/35, UNOPS does not agree with this recommendation. There has been no further follow-up with the Board of Auditors on this matter.

24. *Recommendation 11 (paragraph 62).* UNOPS should continue to monitor closely the rate of project income and to re-evaluate any assumptions and overall project income strategy and policy.

25. *Status.* As was reported in document DP/2002/35, UNOPS has completed the implementation of the recommendation. No further action is required.

26. *Recommendation 12 (paragraph 67).* A clear and definite action plan should be compiled on how, where and when savings from staff cuts will be made and monitored. All costs should be closely monitored and a revised submission made to MCC [Management Coordination Committee] in order to obtain approval should it become evident that the required cap of administrative expenditure will be exceeded.

27. *Status.* As was reported in document DP/2002/35, UNOPS has completed the implementation of the recommendation. No further action is required.

28. *Recommendation 13 (paragraph 73).* UNOPS should intensify its efforts to attain and make provisions for all possible and foreseeable expenditure in respect of information and communications technology (ICT) both in the 2002 budget and beyond. The specific effects of a new computer system on accurate financial reporting should be considered rather urgently.

29. *Status.* As was reported in document DP/2002/35, UNOPS has completed the implementation of the recommendation. No further action is required.

30. *Recommendation 14 (paragraph 77).* UNOPS should prepare a contingency plan, to be submitted to the Executive Board for approval, addressing measures to be taken in the event that the operational reserve is unable to absorb possible deficits.

31. *Status.* As was reported in document DP/2002/35, UNOPS has completed the implementation of the recommendation. No further action is required.

32. *Recommendation 15 (paragraph 79).* UNOPS should consider expanding the use of junior professional officers as a cost-effective mechanism, especially in these times of financial constraints.

33. *Status.* As was indicated in document DP/2002/35, UNOPS does not agree with this recommendation. There has been no further follow-up with the Board of Auditors on this matter.

B. Management issues

34. *Recommendation 16 (paragraph 87).* The agreements between UNOPS and UNDP should be finalized expeditiously in order to regulate the functions of central services received from UNDP and should include the respective functions,

responsibilities and cost structures between UNOPS and UNDP. Furthermore, the Board recommends that a service-level agreement be concluded for human resources.

35. *Status*. Significant progress has been made towards the conclusion of an agreement to enhance further the cooperation between UNDP and UNOPS and clarify the responsibilities of the two respective organizations for central services in the areas of human resource management, ICT, and finance and administration. UNOPS is reviewing the details of services rendered and validating the costs associated with those services as distributed by UNDP. Finalization of a services agreement could be expected prior to the closure of 2002 accounts. The Assistant Director, Finance, Budget and Administration, is responsible for this activity.

36. *Recommendation 17 (paragraph 90)*. UNOPS should arrange for internal oversight coverage of financial procedures, controls and data.

37. *Status*. As was reported in document DP/2002/35, UNOPS has completed the implementation of the recommendation. No further action is required.

38. *Recommendation 18 (paragraph 92)*. UNOPS should: (a) compile a short and long-term ICT strategic plan for the deployment of ICT, which should be updated on a continuous basis; and (b) develop formally documented and approved procedures or guidelines on aspects such as security, disaster-recovery planning, backups amd system development.

39. *Status*. There have been no further developments with respect to the implementation of this recommendation. The Chief Information Officer is responsible for this area.